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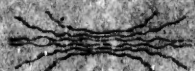
A TRACT FOR THE TIMES

ON

THE SITUATION

BY

AN EXPERIENCED BUSINESS MAN.



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1899.



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TROUBLES that afflict the just in Canada are mainly industrial difficulties. Not only is material wealth a necessity to the very existence of society, but a fair distribution of it is as important to the contentment, peace and prosperity of the people. All wealth is the result of skilful labor, yet the active workers seldom inherit a fair share of the profits of industry, but are doomed to suffer the privations incident to poverty, while a class, not always capitalists, but, it may be, having the reputation only, enjoy but too largely of the profits of every enterprise. The active portion of society want a fair field in which to employ their time and talents, and they want also some degree of certainty that they shall get what they labor for; but that is not to be had where business is defective at the very foundation and afloat upon a tempestuous sea of credit. Canadians have written up credit till it is believed there is no other capital, and the creatures of credit are emboldened to claim the first consideration, while the individuals and institutions possessing the real article are relegated to a back seat.

Our best securities, instead of being allowed to bear a share of the circulation, are put to the unprofitable use of paying excessive importations of foreign goods. Instead of borrowing on your securities you have but to get the certificate of a commercial agency and you may rely on having all the discounts you require. The revolutions that have disturbed society in the past have

usually had their origin in the unfair distribution of wealth, and the active employees were generally the sufferers. Business men are in the same boat with the struggling masses. They find it all but impossible to make ends meet, while money-lenders are periodically declaring for themselves handsome dividends. Competition necessitates that the shelves and counters of merchants be loaded with enormous stocks of goods which cannot be sold for cash, nor can outstanding debts be collected in consequence of a chronic scarcity of circulation; hence maturing paper has generally either to be renewed or dishonored.

Every honest merchant dreads failure as he does the plague or la grippe, and the dense weekly columns of bankruptcies looming up like the Napoleon Guards at Waterloo fill him with distrust and fearful forebodings, although the frequency of suspensions helps to take away the disgrace in proportion as bankruptcy becomes the rule instead of the exception.

Nor is it strange that the farming class, who in a new country are the backbone of the industries, should, from causes affecting the pocket, be disposed to clutch at such straws as "unrestricted union and company" for relief. The schoolmaster is abroad these days giving object lessons to the farmers and their wives on American free trade, that is, "to sell in the dearest market and also to buy in the dearest"—a sort of bastard free trade and very different from that of the bold Britain which is, "sell in the dearest and buy in the cheapest markets." One does not require to follow Mr. Wiman through a hundred columns of closely printed matter to settle the question of reciprocity which is in a nutshell. If Canada cannot have fair reciprocity of trade by treaty on the old lines with the United States, there is no Canadian statesman soft enough to barter away our present position for anything of less value that our kind neighbors have to offer. Canada can always have the American market to sell in, and as our present products bring in the cash it can be laid out again in markets so much superior as to recoup the seller's

share of the American duties. But it is not so very certain that the United States can do without the raw products of this country, in that case the buyer pays the duty. It is very remarkable that the greatest portion of American imports of goods is from Britain, and yet we never hear of its manufacturers complaining of having to pay the duties—perhaps they are too busy to notice it. The Canadian statesmen who would cut us off from the best markets of the world and force the farmers to buy goods which our neighbors cannot sell elsewhere would be very sharply called to account for the misdemeanor. It is clearly not the mission of Americans to teach the world anything better than a crooked free trade. If, as it is said, Mr. Wiman be really a native, he is certainly not playing a very dignified role as the tool of American politicians, and I question that by stumping the Dominion he could scare up a corporal's guard of "suppliants" to suit his purposes.

As to the pretence that American markets are so convenient it does not go for much these days of speedy transit—twelve days from Japan and six days from Europe, and much less after the Quebec and Straits of Belleisle Railway is completed. Canada is on the highway between the two hemispheres, with the United States in her arms and just in the way of other nations. With fleets, harbors, railways and canals as good as any, and wheat fields, forests and waterfalls the best in the world, who shall say that she has not the key to all markets? As an example of what our neighbors can do in creating a market for us to buy in take their handling of their leading staple, cotton. The past season's crop is valued at 350 million dollars, yet the export portion is estimated to be twice as valuable as that of wheat, provisions and cattle, or six times the value of the corn export. In 1880 their cotton was four-fifths of the world's crop, yet they only made use of one-sixth of it. The balance went to Liverpool for the cash, to be manufactured for American people with the rest, and the increasing markets are next door to the United

States, which in 1886 took 45½ million yards; Mexico, 32¼ million; Central America, 37½; Venezuela, 23¼; Brazil, 241; Uruguay, 35¼; B. N. America, 32½; West Indies, 42¼; Argentine Republic, 104¼; Chili, 59¼; Peru, 33¼. The United States exports about \$13,000,000 and Great Britain 250 to 300 million dollars worth of cotton annually. Some Canadian woollen mills even sell their product in the United States in spite of the tariff. The Americans and others have yet to learn that high tariffs mean bad bargains, while British free trade means cheap supplies. But what should Canada or the United States either want from any other country but fair trade relations? They are only stupid that expect or want any other advantage.

Great Britain is destined by her overpowering industries, backed up by the Old Lady of Threadneedle Street, to break down all trade barriers between herself and other nations. She is just now demoralizing the industries of Canada and the United States by forcing her goods on their markets and carrying off the cash capital. When the empire has fulfilled her mission of compelling the nations to accept her humane principles of free trade what happens? It follows that nine-tenths of all causes of quarrel between nations will disappear, and belligerent navies will rot for lack of action, and the armies will largely be disbanded and re-enlisted in the peaceful ranks of producers; for what really does one nation want of another than to have fair trade relations? After international free trade is effected domestic differences may occur, but I cannot imagine what interest one foreign nation should have to interfere with another.

It has been industriously noised abroad as proof of the great prosperity of our neighbors, their having paid off a large portion of their national debt, and that their treasury is overflowing with money, a new phenomenon in the history of nations. These extravagant claims require some explanation.

They tell us their railroad system cost some 8,000 million dollars. That is double the national debt of the empire and

largely borrowed in Europe. How much of that debt has been paid? and what merit is there in shifting the national debt on to the shoulders of the commercial foreign debt, for that was actually done? The money borrowed to build railways went partly to pay off the national bonds, but it is still owing abroad. And as to the overflowing treasury! I think it will be found that by the late Funding Act, the United States treasury was made responsible for the redemption of the National Bank issue some 1,300 million dollars, and if there be in the treasury 50 cents to the dollar to pay with, what is that to boast of?

It would be unpardonable statesmanship to have a surplus on any other terms beyond the interest falling due, for it would only be taxing the energies of the consuming working population unnecessarily. But even the British syndicates that have undertaken to run their mills, elevators, breweries and finances generally is made a matter of boasting by our happy-go-lucky orator, who promises, also, that if Canada will but accept of Commercial Union, the Americans will bring in their capital and develop Canadian minerals! Now, it is a notorious fact that the mines of their own country are worked chiefly by British capital. When have these people ever had any capital they did not borrow?

That country has three different standards of value: the legal tender of paper, the silver standard and, of course, the gold standard, and yet with all that they never understood finance enough to give their sixty millions of people an adequate currency to enable their industries to compete with those of other nations IN OPEN MARKETS. It is a noteworthy fact that, possessing unrivalled advantages in territory, they never had the science of handling their capital independently of aid from other countries. Yet they must be credited with occasional fits of generosity, as the building of a canal through the upper lakes for Canadians before supplying their own people with like facilities; but that good thing is neutralized by the sparing magnanimity of

over-taxing their business people of Detroit who try to economize by living in Windsor!

Their *chef-d'œuvre* in statesmanship is a high tariff to grind down their working people, which will neither keep foreign manufactures out nor keep in the capital. Their best men begin to learn that high tariffs not only create monopolies but also a high-priced market for the sale of the surplus stocks of foreign manufacturers, which drain off the cash capital in payment, a state of things which is gradually tending to industrial revolution in that country. The masses perceive that cheap supplies are equally essential with nominal high wages for their comfort, and they buy the foreign article in preference to their own make.

The following from an American paper indicates how monopolies draw the cords of necessity around the working classes, caused by mal-legislation IN SO SHORT A PERIOD :

WHO OWN THE UNITED STATES?—The aggregate, in fact, of everything of any value composes the wealth of a nation. Now, a statistician of this city has been making some rather staggering calculations. He finds that 25,000 persons own one-half of the entire wealth of the United States, and that the whole wealth is practically owned by 250,000 persons—or only one in 60 of the adult male population. Seventy persons he names own no less than \$2,700,000,000, an average of over \$37,500,000 each. Fifty others own over \$10,000,000 each. He states that he could name ten persons whose wealth averages \$100,000,000 each, and that a list of 100 owning \$25,000,000 could easily be made up. He predicts that in the course of thirty years 50,000 persons will practically own all the wealth of this country. Though such statistics are not to be entirely trusted, still they are sufficiently accurate to dispel the popular notion that wealth is much more evenly distributed in this country than in Britain.

In times past the navies of England were employed in demolishing the armed neutralities of Europe combined against her. To-day they are employed in the peaceful and benevolent mission of supplying the markets of the world with cheaper and more substantial goods than can be had elsewhere. Just imagine 39,235 noble ships and steamers, manned by 200,000 sailors, having 9,314,496 tonnage, doing eighty per cent. of the carrying trade of the world!

When Great Britain proclaimed her ports free the merchantmen of all nations crowded her harbors for the purposes of trade. To the question what is there to pay, the invariable answer was nothing—nothing but wharfage. John Bull simply warned his new-made friends not to overdo a good thing or it would injure themselves. That touch of liberality, so different to the dog-in-the-manger reception of high tariff republicans, made the whole world of traders kin to her merchants and manufacturers, as nothing is so provocative of friendly feeling as the magic of good bargains and square dealing. The mercantile relations of these little islands “rising out of the azure main” instantly expanded world wide, and it would be vain to set limits to the influence of principles that are every day becoming more popular with the masses. That same stroke of liberality has kept the shipyards busily employed ever since supplying fleets to other nations.

When Robert Clive was writing at the desk of the East India Company's office, Madras, the British nation counted but twelve million inhabitants. That was only sixteen years before American independence. In the brief period of 130 years has sprung up the phenomenal greatness of that empire which now overshadows the habitable globe, embracing in its folds races, nations and territories, ancient and modern, barbarous as well as enlightened peoples. At the Durbar held by Sir John Lawrence, a hundred Indian Rulers and Princes, with their Oriental trains, graced his parlors. That single dependency of the British Crown is said to possess a greater number of men able to bear arms than all the inhabitants of Rome numbered in her palmiest days, or 120 millions! The empire now has at least 315 million inhabitants, covering an area of nine million square miles, and no nation can make any important move without affecting her interests; and I may here say that a humble Canadian enjoys the same political rights as a citizen of London. The banking and insurance business of the world is done by this people, a single British agency since the Chicago fire does more business than any fire company in the United States.

Talk of the republican institutions of our neighbors and let them be judged of by their Senate throwing out the Fishery Act after having been signed and sealed, regardless of distressing her large community of fishermen on her eastern coast. Such a proceeding could never have happened in the Imperial legislature.

Long before the United States were thought of, and a century even before the French Revolution, a peaceful change took place in liberty-loving England which is the acknowledged origin of all the constitutional freedom of the modern world. In the reign of William the Third the advisors of the Sovereign, who had hitherto been always responsible to the Crown, were now made answerable to the people henceforth for the advice given, and which had to be taken by the ruler in due course. That simple change at once made the House of Commons supreme in the state—placed the Sovereign for ever under the law and deprived the House of Lords of political power. Premiers have since then so frequently forced measures through the Lords, which they tried to obstruct, that they have learned to regard prudence as the better part of valor and now quietly let the Commons have its own way. During that remarkable reign some half-dozen acts were placed on the statute books, which for wisdom, justice and administrative ability are unparalleled in the history of civilization, and stand as a high water mark for the guidance of the human race. The order now is that Her Most Gracious Majesty Queen Victoria, at the head of this great republic of nations, governs their world-wide interests by a majority of the House of Commons.

The framers of the American constitution seem to have thought that they must have a house similar to the Lords in England, not being aware that a hundred years before that the House of Lords became no longer the second estate of the realm.

The good advice given by Gladstone to the youth of England may safely be taken by Canadians: To study the history of

their own country and learn that every stepping-stone in the progress of the empire has been laid with wisdom.

The reader will excuse dwelling upon these plain matters of history. We shall now proceed to consider one of the important acts just referred to—the charter for

THE BANK OF ENGLAND.

That institution was at first much like our Canadian banks. It discounted commercial paper; and, not being required to hold reserves to secure depositors, it came to grief several times because credit assets could not pay debts on demand; hence distress and ruin followed. But that wise statesman, Sir Robert Peel, saw the point and determined upon placing depositors upon the same secure footing as the holders of circulation. The Bank Act of 1844 has two important provisions: First, it requires that the issue covered by the government debt to the bank, about fifteen million pounds sterling, shall be invested in the three per cent. securities; and second, that every pound note issued above that sum be represented by a sovereign or gold in the vaults, leaving the discount capacity limited by the reserve of notes. The circulation as compared with capital is:

Paid-up capital, ...	£14,553,000 sterling
Circulation, ...	24,536,000

The debts compared with reserves are:

Circulation, ...	£24,536,000 sterling
Deposits, ...	33,153,000
Reserves, Government securities, ...	£32,159,948 stg.
Bullion, ...	22,351,289

CANADIAN BANKS.

Paid up capital, ...	\$60,000,000
Debts—Circulation, ...	32,000,000
Deposits, ...	125,000,000

The circulation here falls short of the paid-up capital \$28,000,000.

The banks secure note holders by a first claim on the assets of four times the value usually, while the claim of depositors is equal to a second mortgage plus the hypothetical security of the double liability.

As the Bank of England has ample reserves its assets may be fairly valued, and as it dominates the trade, the assets of merchants are likewise upon a capital basis. Hence, British trade is on the soundest footing, and the rate of interest since 1844 has fallen to half rates, or say an average of from one to four per cent. per annum.

The manufacturers of that country were, by the change in the constitution of the bank, given an equivalent of cheap capital for the removal of the tariff, and their goods being made under the keenest competition, take the lead in all markets.

The only way that Canada may hope to improve her industries is by taking such steps as will prevent the exportation of the cash capital. It is not for the vain purpose of hoarding; but capital is a tool which is misused by exporting it, being already too scarce. It should be saved that debts may be promptly paid—that assets and the value of all property may be fairly ascertained, and to furnish capital at a low rate of interest to the industries—a better protection than any tariff can afford. The solidity of the Bank of England is an assurance that all tariffs are destined to give way to the liberal principle of “sell in the dearest, and buy in the cheapest markets.” Shakespeare sings in the ears of his countrymen:

“There is no fortress, tower nor town
The golden bullet will not beat down.”

THE CANADIAN BANKING LAW.

The Bank of Issue Law was established for the purpose of discounting promissory notes made on the sale of importations.

That has always been considered first-class business by bankers. The notes so issued served as a currency for the transaction of business which was all very well, but it stimulated importations to an unhealthy degree, because the moment the goods were sold and the bill closed by note, the importer was sure of getting the money for them. But when the exports of produce failed to furnish the exchange to pay for the excess, foreign acceptances had to be met by whatever specie the banks had to spare. The circulation returning from the retailers was of course paid in to the banks by importers for the purchase of exchange and that put the notes out of circulation. In this manner the currency was always reduced by redemption to a degree that made it impossible to transact business except on credit. This explains the usual complaint of bankers that they cannot keep out the circulation.

The banks are owing two classes of debts—the circulation, which is the first charge on the assets, and secondly the deposits equal to a second mortgage and not specially secured by reserves; and because the bankers are not required to hold such reserves, they sell all monies that come to hand to pay for imports. In this way from 200 to 300 million dollars of money, borrowed for various improvements since the Act of Confederation has been paid out again by the banks for the payment of excessive importations of foreign goods; as of course the legitimate trade is settled by the exports of products. But that is not all, for the whole commercial foreign debt of 675 million dollars according to the *London Economist*, if correct, has gone on the same wasteful errand by virtue of the much lauded banking system. How is it possible for a country to pay out in this manner its cash reserves and prosper? and how is it possible in these circumstances to value its property?

The paid-up capital being \$60,000,000 and the average circulation only \$32,000,000 shows a deficiency of \$28,000,000 of circulation. Because, it may fairly be objected, if the country

would have had all the paid-up capital in use without any banks at all, what is the good of such banks? That \$28,000,000 of paid-up capital has declined in value, therefore an equal sum of reserves is required to maintain the par value of the assets of the monthly bank statements.

Then what becomes of that mystified column of \$19,000,000 wrongfully termed reserves? Why should it appear in the statements at all under the circumstances? And, it may be asked, what can be the meaning of bankers periodically going through the formalities of declaring handsome dividends upon assets which are so hypothetical?

In plain language the missing link has got to be recovered or worse consequences are sure to follow.

THE SOLUTION OF THE DIFFICULTY.

The difficulty to be solved is this: The excess of importations employs a certain amount of capital which merely aids foreign manufacturers—a use to which our capital should not be applied because it is not our business. That capital must be diverted from its present use and turned into the aid of the domestic industries where it is so very much needed. But if you force the banks to increase their reserves merely that would of course limit the accommodation to weak importing firms and check the excess of imports, but it would also curtail the circulation proportionately.

The solution of the difficulty is only to be found in the establishment of a capital bank of issue, chartered to do business in first-class securities, and made auxiliary to existing banks.

Again, the capital which is not already exported, nor in use in the general business of the country, must be vested in the real estate, and can only be brought into use by a bank dealing in such property. The Loan Societies have been accustomed to sell their exchange on London to the banks for their notes to reloan.

on mortgage. That has proved a waste of capital because the exchange was only used to stimulate importations.

It is proposed, therefore, that the new bank shall take up the business of the Loan Societies with this exception, that it shall lend it OWN ISSUE on mortgage, and payable on demand. But to provide against a too sudden demand the charters of the present banks should be amended to hold, say half the new issue as a reserve at the credit of deposits. When the issue of the new bank amounts to 56 million dollars the full amount of the 28 million deficient reserves would be recovered by the banks; but it would be recovered gradually and during a period of years. If a bank happened to suspend payments its claim against the new bank would be promptly paid. The other half of the new issue would be payable on demand at the counter.

The new issue would stimulate the domestic industries and increase the exports, and thereby facilitate the process of limiting importations to the value of the exports.

We contend that is the only way to save the industries from the ruinous course they are compelled to pursue by a banking law that fails to meet the wants of this age of steam and electricity—a law which is defrauding the country of its wealth. The new bank would have all the privileges of banks of issue and would guarantee its solvency by the securities it dealt in, and would supply itself with gold in the same manner that the loan societies now supply the banks. It would extend to all freehold farmers and others the opportunity of opening accounts upon undoubted security without any regard to personal reputation. Then such parties could make their purchases for cash on the most favorable terms, and as a consequence cash trade would be established.

The trade problem solved and the capital retained in the country the rate of interest would speedily fall to the level of the London market, and, manufacturers having an equivalent in cheap capital for the tariff, it would be gradually removed

and the trade assimilated to that of the empire. Canada would then have the markets of the world to buy and sell in.

When the rate of interest fell below that which Canadian bonds pay capitalists would import them as a permanent investment.

The stimulus given to manufacturing and other industries would attract immigration and fill up the country.

The lands of Canada are already mortgaged well up to a hundred millions, and at the present rate will soon be mortgaged to their full value and all paid away for foreign goods.

As the difficulty effecting the trade of the country is one of capital, we beg to submit that no credit issue whatever would be of any avail to correct it.

To have a sufficiency of capital for the industries is simply to legislate so that it shall not be exported for supplies that are unnecessary.

It is customary in a free country to look to the opposition in parliament to correct the errors of the government. Up to the last general election Canada felt it possessed such an opposition, but when the hour of action arrived, LO AND BEHOLD they had no proposition to make, and the people naturally refused to trust them with power, because they prefer favoring benefactors. Since that period the government was left to correct its own errors. That statesman who shall give our intelligent and industrious population a competent banking law will lay this colony of the empire under lasting obligations.

And we may here take the liberty of saying that when the Americans shall lay to heart the financial and industrial principles of Sir R. Peel, they may safely take the advice given by General Butler and hoist again the old Union Jack.

